

PUBLIC HEARING

APRIL 22, 2015

A public hearing of the Council of the County of Kaua'i was called to order by Arryl Kaneshiro, Chair, Budget & Finance Committee, on Wednesday, April 22, 2015, at 1:30 p.m., at the Council Chambers, 4396 Rice Street, Suite 201, Historic County Building, Lihu'e, and the presence of the following was noted:

Honorable Mason K. Chock
Honorable Ross Kagawa
Honorable Arryl Kaneshiro
Honorable KipuKai Kuali'i
Honorable JoAnn A. Yukimura

Excused: Honorable Gary L. Hooser
 Honorable Mel Rapozo

The Clerk read the notice of the public hearing on the following:

“Bill No. 2584 – A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUAI COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAXES (*Re-instate Credit Union Exemption*),”

which was passed on first reading and ordered to print by the Council of the County of Kaua'i on March 25, 2015, and published in The Garden Island newspaper on April 7, 2015.

The following communications were received for the record:

1. Chiba, Melvin I., President/CEO, Kaua'i Community Federal Credit Union, dated April 9, 2015
2. Ige, Nikki, Vice President-Risk Management, Kaua'i Community Federal Credit Union, dated April 17, 2015
3. Shepherd, Nora, dated April 8, 2015
4. Shimabukuro, Tess, Executive Vice President, Kaua'i Community Federal Credit Union, dated April 16, 2015
5. Tanimoto, Dennis, President, Hawai'i Credit Union League, dated April 22, 2015

Ms. Fountain-Tanigawa: Committee Chair, we have registered speakers. At this point, we have four (4). The first registered speaker is Dennis Tanimoto, followed by Scot Tsuchiyama.

DENNIS TANIMOTO: Members of the Council, I am Dennis Tanimoto, President of the Hawai'i Credit Union League which is the trade association for sixty-nine (69) credit unions in Hawai'i. Six (6) of which are domiciled on the island of Kaua'i. As stated in my written testimony, the credit unions of Kaua'i and the entire state strongly support Bill No. 2584 that seeks to reinstate the credit unions nonprofit tax status with regard to real property taxes.

Credit unions are not for profit, member-owned cooperatives that provide affordable financial services to members who are primarily working class citizens and retirees. Similar to health care agencies that provide medical wellness to their patients, nonprofit credit unions provide financial wellness to more than fifty-five thousand (55,000) members on Kaua'i and more than eight hundred and ten thousand (810,000) members throughout the state. Unlike what some refer to as traditional for-profit financial institutions nonprofit credit unions can only serve a limited field of membership with a limited narrow array of products and services. Furthermore, nonprofit credit unions have no access to outside capital like traditional for-profit financial institutions. Each credit union is run by a volunteer board of directors, democratically elected by member owners under a democratic one member, one vote concept with no proxies. Credit unions are structurally unique, well accepted, and regularly restricted in the financial services market place. To say the real property tax exemptions gives credit unions a competitive advantage over traditional for-profit financial institutions is simply not accurate. As evidence, credit unions do not enjoy a competitive advantage over traditional financial institutions. The State's smallest bank was chartered in mid-2006 and in less than nine (9) years amassed one hundred and eleven million (\$111,000,000) in total assets, which is more than seventy-nine percent (77%) of Hawai'i's sixty-nine (69) credit unions, many of which were chartered over seventy-five (75) years ago. To put this in perspective, the median size credit union in Hawai'i has less than thirty-eight million dollars (\$38,000,000) in assets, about one-third (1/3) the size of that smallest bank. In summary, the original justification for the credit unions real property tax exemption, the structured purpose, and public benefit have remained unchanged over the years. We respectfully ask that the real property tax exemption for credit unions be reinstated by passage of Bill No. 2584. Thank you for the opportunity to testify.

Committee Chair Kaneshiro: Thank you. Next speaker.

Ms. Fountain-Tanigawa: The next speaker is Scot Tsuchiyama, followed by Corinne King.

SCOT TSUCHIYAMA: I am the Manager for Kekaha Federal Credit Union on the westside of Kaua'i. Thank you for letting us speak today. I would just like to ask you to support Bill No. 2584. I think you should support our Bill because it is good public policy. Public policy in two (2) ways, one (1) is that we are all local businesses and all the money that we generate stays on the island. We buy local as much as possible. Our cooperative status, cooperatives in the economic system, they fill a niche and I think as good public policy, you should help us fill that niche. Usually cooperatives are formed so that people can compete in the market place. We see fishing, agriculture, taro-growers cooperatives, and we are just another cooperative – we are a financial cooperative. I think for that reason, public policy is that you should support these cooperatives. Another thing that we do is we help bring in cash to our local economy. Kekaha Federal Credit Union, we have this year, free for all people on Kaua'i, with true partnerships with the Kaua'i community, and Hawai'i Community Based Economic Development we prepared over four hundred (400) tax returns. We brought in over seven hundred thousand dollars (\$700,000) in three (3) months to the island of Kaua'i. All this money was spent on the westside, I am assuming because most of them were westside residents. For that reason, we pump money back into the economy. The money there was not generated and circulated within the County of Kaua'i before tax

season. For these reasons, I would like to ask you for your support of Bill No. 2584. Thank you.

Committee Chair Kaneshiro: Thank you. Any questions? No. Next speaker please.

Ms. Fountain-Tanigawa: The next speaker is Corinne King, followed by Mel Chiba.

CORINNE KING: Thank you, Councilmembers, for giving us the opportunity to speak today. I am President of the Kaua'i Government Employees Federal Credit Union. For someone that has to work part-time to pay the bills, money is in short supply. For a full-time college student working part-time having money is just a rumor that we once heard. I first became a credit union member in 1971 while a college student working part-time. My first loan was to get a used vehicle to go to school and work. It was an old Ford Bronco that was kind of a yellowish/brown in color. I got that loan from my credit union when the bank would not even talk to me, and this was my parent's bank. I got that Ford Bronco because it was so ugly, nobody else wanted it. It got me through school, and at that credit union I went on to become a volunteer and then a board member, and how wonderful I thought it is that I am so poor that I have the same vote, the same voice as the richest member of this credit union and all of those in between. That was my first credit union experience and it was a good experience, and I have been a member of a credit union ever since. Credit unions do not have stockholders, we have members. We each have an equal vote and we each have an equal voice. Credit unions' very existence is about people helping people of modest means; just like that college student that was helped so many years ago. We are still here today with the same philosophy as back then, still making those same types of loans today to the most vulnerable and the most in need as we did back then. Here on Kaua'i during the Great Recession, we made loans to help our members avoid foreclosure and send their kids to college. We loaned money to help members get vehicles so they could get to their numerous part-time jobs. We loan money to furloughed members who had less money but the same bills. We made small-unsecured loans to members whose hours were cut so that they could keep food on the table and the electricity on. We did not take government handouts. We did what big business did not do, we did not turn you away saying, "We had a moratorium on lending money." We made loans, helped those who needed it, we poured more than eighty-eight million dollars (\$88,000,000) into the county of Kaua'i. The money we used to make those loans comes from the deposits our members entrust to us for safekeeping...

Committee Chair Kaneshiro: Your three (3) minutes are up, but you can have another three (3) minutes once everybody goes through and testifies.

Ms. King: Okay, thank you.

Ms. Fountain-Tanigawa: The last registered speaker is Mel Chiba.

MEL CHIBA: Hello, everybody. First of all, KipuKai, Mason, Arryl, congratulations for being elected to the County Council. To Ross, thank you very much for introducing Bill No. 2584 for us, and to JoAnn, nice to see you again, and thank you. I just wanted to say that I am the old grandfather of the industry both here on Kaua'i and even statewide. JoAnn and I go back forty (40) years or so, school government and things like that in our high school days. Ross,

thank you very much for introducing Bill No. 2584. I do not have much to say other than the fact that of course it is obvious that I am going to ask you for your approval of Bill No. 2584. I have written to all of you, Council as a whole, given my reasons for why I am asking for your approval of the Bill. I have appeared here before and have given my reasons for why I strongly believe that we should retain our exemption for real property tax in excess of three hundred dollars (\$300). I do not know what the process is, but I did want to open myself up to any questions or anything you want to discuss. I know there has been talk about issues about the building that we have and perhaps we are big, and all these kind of things, and if it is serious enough, I do want to answer any questions that you might have. The main thing is please remember that credit unions have been on Kaua'i for seventy-seven (77) years already. We have never changed our objectives, mission, we helped generations upon generations of families with their personal financial needs, it has been very successful, and I was very fortunate to be in this business for over forty (40) years and the rewards have been excellent. I am asking you for approval because I really do not want to see changes to our philosophy, the way we operate, and what we have been doing thus far. I do not know the process, do you ask me questions now, or do I come back later?

Committee Chair Kaneshiro: We can ask clarifying questions, if there are any questions from the members. Councilmember Chock.

Councilmember Chock: I appreciate your testimony and what you are trying to preserve, but can you mention what would change if it were not preserved.

Mr. Chiba: The primary concern that I have is not so much the money...I am looking at our philosophy. We are not for profit. We are a financial cooperative and basically I believe that we do everything within the community and are member owned. The money amount, things like that, I do not know if that matters to that extent, but anything like that in essence threatens our existence to do what we have been doing. I just do not want to get close to that because it could start small, but it could end up being big. The other thing to remember is that on Kaua'i, we have small credit unions and we have large ones like myself. Depending on the amount that it comes out to, the tax decision, it is going to affect all of us, some more so than others. We need the small credit unions, they served their purpose and have done well for their field of membership and I do not want to see them get in trouble financially too.

Committee Chair Kaneshiro: Any further questions from the members?
Councilmember Yukimura.

Councilmember Yukimura: Thank you for being here and for all you have done to build the industry over the years because I recognize the credit unions have really contributed to the wellbeing and the growth of our community and economy. I firmly believe in cooperatives which is why I was on the organizing board of KIUC (Kaua'i Island Utility Cooperative) which bought the investor owned utility of Kaua'i Electric and turned it to a cooperative which I believe is serving us well because it is member driven rather than outside investor driven. For all those reasons, I share your values and really honor the credit unions for the work that is being done. How do you distinguish yourself from KIUC which is member-owned and follows all the same cooperative principles because they do pay a considerable

in lieu tax to help pay for the County services that are rendered? Can you help me with of distinction?

Mr. Chiba: I do not know if I can help you, but let me explain it this way. First, I helped with starting that organization; we had several meetings in setting up KIUC for the cooperative side.

Councilmember Yukimura: Thank you.

Mr. Chiba: I have to use my own language because I do not know the technicalities of it, but one of the parts that you are trying to distinguish between the two are: we are both cooperatives, nonprofit, member driven, and member owned. If you look at the competitive side, the fees on the charges on the KIUC side is regulated because they do not have competitors. We still compete for pricing and so we keep it down as cheap as we can, we still try to return things to the membership. KIUC, Wilcox Hospital, I think they are all regulated on what they charge, but they do not compete against anybody else on the pricing side, to my knowledge.

Councilmember Yukimura: Okay, thank you. That is something I did not really look at.

Committee Chair Kaneshiro: Councilmember Kagawa.

Councilmember Kagawa: I wanted to help answer that question. KIUC is a monopoly. We all need it, that is the only place we can get electricity – it is a monopoly, and the credit union is not. This is why I put this Bill on, I did not want Kaua'i to be the only island that treats our credit unions like they are not nonprofit, so is there any other island, county, besides Kaua'i that is making them pay real property taxes as a for profit?

Mr. Chiba: I read in the paper recently, I do not know anything further than what I read, but on O'ahu, the tax commission or some appointed commission sent their recommendations to the Honolulu County Council.

Councilmember Kagawa: But as far as Big Island and Maui, they are treated as nonprofit?

Mr. Chiba: Not to my knowledge...

Councilmember Kagawa: Not to my knowledge as well. Thank you.

Committee Chair Kaneshiro: Any further questions from the members?
Thank you, Mr. Chiba.

Mr. Chiba: Thank you all very much.

Committee Chair Kaneshiro: Is there anyone in the audience that wants to testify for the first time? Ms. King, would you like another three (3) minutes?

Ms. King: Thank you for giving me the opportunity to conclude. Essentially, I am here in defense of the smallest credit unions and to just speak a little bit about the impact because I remember back when the Farm Bureau

Employees Federal Credit Union gave me my first loan, it was a very small credit union with around three million dollars (\$3,000,000) in assets. What is most scary for us and it happens here in this community as it does in a lot of other communities is when someone says, "It is such a small amount, small tax, or you can afford it," the tragedy is each one of those small costs takes a piece out of each one of us. The smallest and most vulnerable are the most impacted and when they can no longer function here, they generally are merged into someone else and those unique services and benefits that are provided for them can no longer be provided in that individual community. We are not vulnerable and like those before us when precedence is set, we all run the risk of evanesing into nonexistence because we do have competitors. For those reasons and for all of the people who will continue over the years, generations and generations to come who need our help, the seven thousand two hundred and four (7,204) members of Kaua'i Government Employees Federal Credit Union asks that you support Bill No. 2584 and preserve our not for profit tax status. Thank you for giving me the opportunity to conclude.

Committee Chair Kaneshiro: Thank you. Any questions from the members? Councilmember Yukimura.

Councilmember Yukimura: Yes, Ms. King, thank you. If we pulled back the tax status, are you saying that there will not be any mergers?

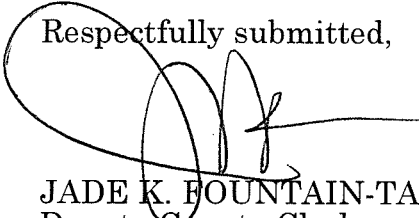
Ms. King: I can never say there will be no mergers.

Councilmember Yukimura: Right, okay. Thank you.

Committee Chair Kaneshiro: Any further questions from the members? Thank you, Ms. King. Anybody else from the audience wishing to testify on this matter?

There being no further testimony on this matter, the public hearing adjourned at 1:51 p.m.

Respectfully submitted,



JADE K. FOUNTAIN-TANIGAWA
Deputy County Clerk

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